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Office of Internal Audit

Department of Finance

Printing Contract

Report

Office of Internal Audit

Metro Finance Department

Printing Contract
United Graphics

December 2004



Department of Finance

Printing Contract

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Transmittal Letter

December 3, 2004

Honorable Ken Fleming
Louisville Metro Council
601 West Jefferson Street
Louisville, KY 40202

Subject: Final Review of Printing Contract (United Graphics)

Introduction

As requested, we performed a contract compliance review of the printing contract awarded in February 2004 (#22573 to United Graphics). The focus of this review was compliance with the following:

- Cost and quantities for standard items;
- Cost and quantities for non-standard items;
- Price quotes/bids for items costing more than \$2,500.

The compliance review of the printing contract consisted of two stages:

- 1). A preliminary review of activity was conducted early in the contractual period (April and May 2004). This is when compliance issues are more likely to occur as agencies become familiar with the new procedures/requirements. This provided an opportunity to address issues before they became embedded and systemic.

The Internal Audit results for April and May 2004 activity were issued on July 15, 2004. These results were issued to both the Metro Finance Department and Metro Purchasing Department so that weaknesses could be addressed. *The Cabinet for*

Finance and Administration conducted a meeting for all departmental Business Managers on August 13, 2004 addressing the contract policies and procedures.

- 2). A final review of activity was completed after sufficient time had passed to ensure that agencies had the opportunity to learn the procedures/requirements (August 2004).

While this report primarily provides the results of print shop contract activity for August 2004, the results for all three periods reviewed are referenced.

Background

The printing contract was awarded in February 2004. As illustrated in the appendix, the total payments authorized by the printing contract for April, May and August 2004 was approximately \$209,410. This amount does not include other Metro payments made during the period that were not authorized by contract #22573 (e.g., items bid through Purchasing that were awarded to United Graphics under another purchase order/contract).

The contract includes quantities and prices for standard items (e.g., business cards, letterhead). All Metro agencies are required to purchase standard items under this contract, and may purchase non-standard items depending on the total cost. *Table 1 of the appendix* provides the number of standard items and non-standard items, along with the total costs for each, for April, May and August 2004.

The Purchasing Department issued procedures in March 2004 regarding the use of the contract. The procedures included defined cost thresholds and actions for **non-standard items** as follows:

<i>Total Cost</i>	<i>Requirement</i>
\$0 - \$2,499	Agencies may use vendor of choice, including United Graphics
\$2,500 - \$9,999	Three price quotes must be obtained, one of which must be from United Graphics
\$10,000 +	Must be bid through Purchasing Department

Scope

The operating procedures for administering printing contract activity were reviewed through interviews with key personnel. A review of the population of contract payments for the period April 1, 2004 through May 31, 2004 and August 1, 2004 through August 31, 2004 was performed. There were a total of 642 print jobs for Metro agencies for this period.

The review included determining whether individual orders involved standard or non-standard items as defined by the contract. In addition, print order costs were assessed to determine whether or not defined thresholds were met which would require price quotes/bids. Payment documentation and supporting records were also examined to

determine the completeness, appropriateness, and adherence to contractual requirements. Our examination was conducted in accordance with Government Auditing Standards and with the Standards for the Professional Practice of Internal Auditing.

Conclusion

Compliance with the printing services contract is weak and requires corrective action. Many of the weaknesses were noted during both the preliminary and the follow-up reviews of the printing contract. In response to the preliminary Internal Audit review of activity, the Metro Finance Department provided information to departmental representatives regarding adherence to the printing services contract guidelines. This information may not have been provided in time for corrective actions to be reflected in the follow-up review period. Ultimately, each individual authorizing purchases using the contract is responsible to ensure compliance. *It does not appear, nor should it be inferred, that there are allegations of illegal or improper activity.*

Action Plan

The Office of Internal Audit has consulted with managers representing the Metro Finance Department and General Services Administration (GSA) regarding the issues noted in this report. Metro Finance and GSA are currently evaluating the existing print shop contract with the goal of determining how to best meet Metro Government's printing needs. Ultimately, an administrative plan and recommendations will be developed to provide effective and efficient printing services.

Sincerely,



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council
Deputy Mayors
Chief Financial Officer
Director of General Services Administration
Director of Purchasing

Opportunities and Recommendations

Methodology

Key personnel were interviewed to gain an understanding of the operating procedures used to administer the print shop contract activity. The focus of this review was the processing, recording, and monitoring of activity.

A review of the population of payments authorized by printing contract #22573 for the period August 1, 2004 through August 31, 2004 was performed. There were a total of 199 print jobs for Metro agencies totaling approximately \$65,400 for the period. Print job reports, vendor invoices, and supporting documentation was examined to determine adherence to contractual requirements.

The following opportunities were noted.

Opportunities

There were several opportunities noted for improving the administration of the print shop contract activity. These opportunities focus on strengthening the internal control structure to ensure compliance with applicable contract requirements.

#1 - Price Quote/Bid Requirements

The price quote requirements are not adhered to. From the population of August 2004 activity reviewed, three items exceeded the threshold (\$2,500) requiring price quotes. None of these items actually had quotes obtained.

- One agency indicated that several attempts have been made to notify all personnel of the contract policies. However, two orders were still purchased without obtaining the price quotes.
- Another agency received one quote from United Graphics, but did not obtain quotes from any other suppliers.

The number of print jobs and the total costs for each threshold are provided in *table 2 of the appendix*.

Another issue was noted during the preliminary review that might contribute to noncompliance.

- Initially, the procedures were not included in the actual printing contract. The Purchasing Department issued the procedures via email to Metro agencies' business office personnel in March 2004. This method of disseminating the information may

not have been effective in contacting all applicable personnel. Therefore, it is possible that all Metro personnel may not have been aware of the requirements. *Procedures were added with the contract information in August 2004 and are available on the Louisville Metro financial system. This information may not have been provided in time for corrective actions to be reflected in the follow-up review period.*

#2 - Use of Standard Items

There may be opportunities for savings if Metro agencies use more of the standard items, even if they are not exactly what are desired (e.g., two-color business cards instead of three-color).

- 18 of the 199 (9%) print jobs for August 2004 were for non-standard items that had similar standard items available. While these transactions appear to have adhered to contract guidelines, it is estimated that Metro Government could have saved approximately \$1,178 if the similar standard items would have been purchased. It should be noted that judgment was required to make this determination since standard versus non-standard is not part of the required invoice documentation.

It also may have been beneficial if more standard items had been included in the Request for Proposal.

#3 - Quantities Ordered/Delivered

The quantity delivered differed from the quantity ordered for 7 of the 199 (4%) print jobs for the month of August 2004. This resulted in Metro agencies paying approximately \$580 more for the extra items. It was explained that printing industry standards provide for a setup run that allows for 10% variance of items ordered. The Metro agencies are not required to accept the extra items sent, but are charged if they choose to keep them.

#4 - Contractual/Procedural Structure

Due to the structure of the contract and procedures, there may be a conflict that could impair Metro Government from receiving the most favorable price for work performed. The procedures require price quotes for any items over \$2,500. This could be an incentive to United Graphics to provide estimates near, but less than \$2,500, even if profit is lessened. This would allow Metro agencies to use United Graphics without obtaining quotes from other suppliers since the cost threshold would not be exceeded. This is noted for informational purposes only. Detailed review of jobs close to the \$2,500 threshold did not reveal a pattern/trend of this occurring (*see table 3 of the appendix*). It does not appear, nor should it be inferred, that there are allegations of illegal or improper activity.

Recommendations

Metro Purchasing and Finance & Budget personnel should continue corrective action efforts focused on ensuring Metro agencies understand and comply with contractual requirements. This action should be taken immediately, so that non-compliance issues do not keep occurring and become systemic. Specific recommendations include the following.

- ✓ Appropriate action should be taken to ensure that all Metro agencies are aware of, and understand, the printing contract requirements. All contractual and procedural requirements should be adhered to. Agencies do not have the discretion to disregard these requirements.
- ✓ Positive confirmation of receipt and comprehension of the printing procedures should be obtained. This may be in the format of a signed document from each agency business manager, or a master list of agencies verified via phone call/email. Whatever the approach, it is important that confirmation be proactively obtained instead of waiting for noncompliance issues to occur.
- ✓ Training of key personnel at various Metro agencies may be necessary. The monthly business managers meetings offer a forum to continue discussing compliance issues, and to provide a consistent message to all agencies.
- ✓ Louisville Metro Finance and Purchasing staff should incorporate best practices for print shop services into Metro operations. This may involve investigating other arrangements and contacting entities with similar printing uses to determine the most effective manner to administer this activity.
- ✓ Finance & Budget personnel should review the monthly invoice to ensure compliance with requirements. This includes performing spot-checks of individual Agency billings to help ensure the contract rates are charged for standard items. Additionally, this oversight should include the review of adherence to price quote requirements when applicable. Agencies that do not comply should be immediately identified so that corrective actions can be taken.
- ✓ Ultimately, individual agencies are responsible for adhering to the contract requirements and procedures. Routine administrative oversight should include contract compliance. This responsibility and accountability should be stressed to all agencies.
- ✓ Sufficient documentation should be maintained to record the basis for awarding printing jobs in accordance with the contract procedures. Metro Purchasing should maintain complete file information for printing jobs requiring bids/quotes.

- ✓ Finance & Budget personnel should spot-check costs for non-standard items to ensure consistency in the prices charged. This applies to items costing less than the \$2,500 threshold, and requires the identification of similar items in order for the comparisons to be valid. While potentially burdensome, this would provide some assurance that prices charged to various agencies are consistent.
- ✓ Finance & Budget personnel should monitor items that are close to the threshold range, but do not exceed it. The purpose is to ensure a trend does not develop of quoting close to the amount so that Metro agencies do not have to obtain additional price quotes.
- ✓ The feasibility of requiring Metro agencies to use standard items, even if not exactly what is desired, should be explored. Metro agencies should assess whether or not enhanced items are necessary and beneficial when similar standard items are available. While several factors must be considered (e.g., public relations, perception of mailing materials) there may be opportunities for cost savings through increased use of standard items.
- ✓ Metro agencies should be instructed that they are not required to keep/pay for quantities delivered that exceed the ordered amount. The agencies should not be required to return any excess since there may be a legitimate business need for the extra items.
- ✓ Documented, detailed policies and procedures should be developed and disseminated to applicable personnel. This should include sufficient detail of the steps performed, copies of forms used, and policies followed in the process, as well as routine monitoring responsibilities.

Appendix

The tables beginning on the following page provide detail information regarding the printing activity for April, May and August 2004. Information for each of the three months reviewed is included so that comparisons can be made. The following tables are included:

Table 1 - Activity by Type (Standard or Non-Standard Item)

Table 2 - Activity by Cost Threshold

Table 3 - Activity Near Price Quote Threshold (\$2,500)

Table 1: Activity by Type (Standard or Non-Standard Item)

Total Activity					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	
Number of Jobs	231	212	199	642	
Cost	\$83,243	\$60,731	\$65,436	\$209,410	
Standard Items					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	34	24	41	99	15.4%
Cost	\$1,032	\$981	\$1,748	\$3,761	1.8%
Non-Standard Items					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	197	188	157	542	84.4%
Cost	\$82,210	\$59,750	\$63,523	\$205,483	98.1%
Unidentified Items					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	0	0	1	1	0.2%
Cost	\$0	\$0	\$165	\$165	0.1%

This details the number of printing jobs and the total costs for April, May, and August 2004, as well as the standard and non-standard items authorized by printing contract #22573. One print job was unidentifiable.

Table 2: Activity by Cost Threshold

Total Activity					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	
Number of Jobs	231	212	199	642	
Cost	\$83,243	\$60,731	\$65,436	\$209,410	
< \$2,500					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	229	211	196	636	99.1%
Cost	\$75,965	\$55,523	\$50,371	\$181,859	86.8%
\$2,500-\$9,999					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	2	1	3	6	0.9%
Cost	\$7,278	\$5,208	\$15,065	\$27,551	13.2%
> \$10,000					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	0	0	0	0	0.0%
Cost	\$0	\$0	\$0	\$0	0.0%

This details the number and total costs of print jobs based on cost thresholds defined by procedures for printing contract #22573.

Table 3: Activity Near Price Quote Threshold (\$2,500)

Total Activity					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	
Number of Jobs	231	212	199	642	
Cost	\$83,243	\$60,731	\$65,436	\$209,410	
< \$2,400					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	227	209	196	632	98.4%
Cost	\$70,977	\$50,536	\$50,371	\$171,884	82.0%
\$2,400 to \$2,499					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	2	2	0	4	0.6%
Cost	\$4,988	\$4,988	\$0	\$9,976	4.8%
\$2,500 +					
	<u>Apr-04</u>	<u>May-04</u>	<u>Aug-04</u>	<u>Total</u>	<u>% of Total</u>
Number of Jobs	2	1	3	6	0.9%
Cost	\$7,278	\$5,208	\$15,065	\$27,551	13.2%

This details the number and total costs of print jobs approaching the cost threshold (\$2,400 to \$2,499) defined by procedures as requiring three quotes. It is presented for informational purposes only.